



THE ASSISTANT SECRETARY OF THE NAVY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

SEP 04 2001

MEMORANDUM FOR DISTRIBUTION

Subj: SHIPBUILDING PROGRAM COST GROWTH; CONFIGURATION
CONTROL

Ref: (a) SUPSHIP OPERATIONS MANUAL, Chapter 9, dtd July 1999
(b) OPNAV Inst 5420.108B dtd 9 March 2001

Shipbuilding Program Managers are responsible for developing budgets that fully fund their programs, and reasonably reflect the projected cost of incorporating necessary contract modifications. Once a budget is properly established and funded by the Department of the Navy, Program Managers are then responsible for executing the complete scope of the program within that budget.

Unbudgeted cost growth in shipbuilding programs has resulted from a multitude of factors, including the adjudication of engineering and non-engineering contract changes. While some level of change activity is recognized as necessary to correct safety concerns and Government responsible defects, other changes can best be characterized as incorporation of unplanned new scope and capability improvements.

The purpose of this memorandum is to amplify reference (a) policy regarding the scope of modifications to shipbuilding contracts that may be approved by respective Program Managers. Specifically, Program Managers are authorized to approve Level 3 engineering and non-engineering change proposals that reduce contract cost or result in no change to contract cost. Existing program funds appropriated for change orders shall be reserved to correct Government responsible deficiencies in the following categories:

- a. Safety - e.g., changes required to eliminate hazards to ship components or personnel as officially documented by oversight organizations such as SUPSHIP Quality Assurance, ABS, US Coast Guard, INSURV, and OPTEVFOR.
- b. Contractual defects - e.g., correction of defective specifications, defective or unavailable Government Furnished Equipment, or defective or unavailable Government Furnished Information.
- c. Unavailable contractor furnished equipment - e.g., "or equal" form, fit, and function replacement of Government

- specified contractor furnished equipment or components that are no longer available.
- d. Testing and trial deficiencies - e.g., necessary component or system modifications derived from developmental or operational testing.
 - e. Statutory and regulatory changes that are accompanied by funding.

Program managers may not approve any change proposals outside of these categories which increase program acquisition cost. Further, once all appropriated change order funds are allocated, program managers must offset the cost of additional changes in these categories with reductions in the scope and/or cost of other baseline program efforts. Any increased-cost alteration to the program baseline (except for the correction of deficiencies as noted herein) associated with new or revised requirements, Government Furnished Equipment upgrades, or modifications that would result in a reduction of life cycle cost may be submitted for consideration to the Ship Characteristics Improvement Panel as outlined by reference (b). Any such alterations must be accompanied by funding offsets from within the program baseline. Decreased cost alterations are not intended to provide an additional asset for increased cost alterations. Modifications that are mandated by statute or regulation, but are unfunded, should be submitted to ASN(RD&A) for consideration.



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